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DATE:

7-28-89

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RAPICOM 120

SENT TO:

Michael Drozd

TELEPHONE NUMBER:

(303) 592.4586

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(NUMBER)

FROM:

Bill Musser

CLIENT/MATTER NO.

8037.5112

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July 26, 1989

VIA TELECOPY

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GREENVILLE, S.C. 29601
803-271-4940

HILTON HEAD ISLAND OFFICE
McNAIR LAW BUILDING
10 POPE AVENUE EXECUTIVE BAY
POST OFFICE DRAWER 7787
HILTON HEAD ISLAND, S.C. 29923
803-785-5109

WASHINGTON OFFICE
SUITE 400
MADISON OFFICE BUILDING
1155 18TH STREET, N.W.
WASHINGTON, D.C. 20008
202-669-3900

Mr. Michael Drozd
Gwalia (U.S.A.) Ltd.
1675 Broadway, Suite 2350
Denver Colorado 80202

Re: Bowater Exchange Agreement

Dear Michael:

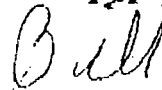
Transmitted herewith is a revised retyped draft of the Bowater Exchange Agreement and a copy of some environmental covenants which you may want to have made a part of the Exchange Agreement and the purchase contracts between Gwalia and the owners of the Exchange Property.

I am not certain of your bargaining position with Bowater. However, I am somewhat concerned about the possible liability which Gwalia may incur by virtue of its acquiring the Exchange Property. Under current federal law, Gwalia, as an owner of contaminated property, could be liable for Superfund (environmental) clean-up of the contaminated property even after it conveys the property to Bowater. Therefore, it would be in Gwalia's interest to obtain environmental covenants from Bowater and the sellers of the Exchange Property and an indemnity from Bowater for any environmental liability which Gwalia may incur.

On the other hand, if Gwalia asks for environmental indemnities, it is possible that Bowater will ask for reciprocal indemnities for Gwalia's acts on the Bowater Property. Therefore, you may not want to raise the specter of environmental covenants and indemnities in the Exchange Agreement.

I will be in the office for most of the day. Please call me if I can be of assistance.

Very truly yours,



William M. Musser

WMM/mf
Enclosure(s)
cc: Mr. David Halverson

EXCHANGE AGREEMENT

This Agreement is entered into on _____, 1989, by GWALIA (USA) LTD., a Delaware corporation ("Gwalia"), and BOWATER INCORPORATED (successor by merger to Catawba Timber Company), a Delaware corporation ("Bowater").

WHEREAS, Bowater owns the real property described in Exhibit "A" attached hereto and made a part hereof (the "Bowater Property"); and

WHEREAS, Gwalia wishes to acquire the Bowater Property by exchanging therefor certain real property hereafter acquired by Gwalia pursuant to the terms hereof.

W I T N E S S E T H:

In consideration of the premises and of the mutual covenants and agreements herein contained, the parties agree as follows:

1. Bowater agrees to convey the Bowater Property to Gwalia in exchange for like-kind property to be designated by Bowater and acquired by Gwalia for conveyance to Bowater (the "Exchange Property", as more specifically described herein), and Gwalia agrees to acquire the Exchange Property designated by Bowater and to convey the same to Bowater in exchange for the Bowater Property. It is the intention of the parties hereto that the exchange of the Bowater Property for the Exchange Property as provided for in this Agreement qualify as an exchange of property of like-kind within the meaning of Section 1031 of the Internal Revenue Code of 1986, as now in effect, and regulations thereunder. However, Gwalia makes no representations or warranties that said exchange will so qualify and shall in no event be liable or responsible for damages to Bowater in the event the exchange fails to qualify.

2. As soon as practicable after the date hereof, Bowater shall begin the selection of one or more tracts or parcels of land which will comprise the Exchange Property. Bowater will be responsible for negotiating for the purchase of such tracts or parcels. Bowater will be responsible for examining title to any tract or parcel that will become part of the Exchange Property.

3. Upon finalization of negotiations for the purchase of each particular tract or parcel, Bowater shall deliver to Gwalia a written request that Gwalia execute a contract for the purchase of such tract or parcel. Such contract may be in the form of an option. Each such written request shall constitute a contractual agreement of Bowater to accept a conveyance of such tract or parcel as part of the Exchange Property in exchange for the Bowater Property. Thereafter, Bowater will provide for title examination and acquisition of each property in the name of Gwalia using all or any portion of the Exchange Value, as defined below, which will be made available for purchase of each property on ten days' notice from Bowater. Transfer of the Exchange Property to Gwalia shall be by special or general warranty deed, and shall be made subject to such liens, encumbrances and exceptions to title as may have been approved by Bowater (the "Permitted Exceptions").

4. Bowater shall have the right to select and negotiate for the purchase of as many tracts or parcels as it deems prudent. To the extent such tracts are purchased by Gwalia, they will collectively comprise the Exchange Property. Provided, however, that the aggregate purchase price for all such tracts or parcels, not adjusted for prorated property taxes received by Gwalia at the time of purchase and all attendant direct costs incurred by Gwalia in such transactions, shall not exceed the Exchange Value, as defined below.

5. At a time and place to be agreed upon by the parties, but no later than six months after the first date of acquisition of Exchange Property by Gwalia, the exchange of properties shall be closed (the "Closing") by Gwalia conveying the Exchange Property to Bowater by special warranty deed subject only to the Permitted Exceptions and Bowater simultaneously conveying the Bowater Property to Gwalia by general warranty deed, subject only to those exceptions and encumbrances, if any, of record as of the date hereof, and subject to the reservations set forth in Exhibit "A."

6. Gwalia shall, at its own expense, make whatever examination of the title to the Bowater Property it deems necessary for its purposes.

7. For purposes of this exchange the parties hereby agree that the value of the Bowater Property and the amount to be paid by Gwalia (whether in cash, through the conveyance of the Exchange Property or the incurring of direct costs) shall be \$502,525.05 (the "Exchange Value"); provided, however, that if within _____ days of the date hereof an accurate survey of the Bowater Property shows acreage of less than 148.02 acres, the Exchange Value shall be proportionately reduced. If the costs incurred by Gwalia to acquire the Exchange Property, including the price paid for the property and all direct costs incurred by Gwalia in acquiring the Exchange Property, but not adjusted for any prorated taxes received by Gwalia at the time of purchase, shall be less than the Exchange Value, then Gwalia will pay the deficiency to Bowater at the Closing, as provided in paragraph 8. All such direct costs will be a credit against the Exchange Value. Gwalia shall not be required to expend more in direct costs, including the purchase price of the various tracts or parcels, than the Exchange Value in acquiring the Exchange Property.

8. If Bowater should fail to designate a sufficient amount of Exchange Property for acquisition by Gwalia prior to the first to occur of the date six months from the first acquisition by the date eighteen months from the date of this Agreement, then the Closing shall take place within 15 days thereafter at which time Bowater will convey the Bowater Property to Gwalia as described in paragraph 5 above, Gwalia shall convey such tracts and parcels it has acquired to Bowater as described in paragraph 5 above, and Gwalia shall pay Bowater by certified or cashier's check an amount equal to the remaining Exchange Value.

9. Each party shall be responsible for payment of the transfer fees and taxes and recording fees applicable to the deed or deeds which the party receives at Closing. Ad valorem taxes on the Bowater Property and the Exchange Property shall be prorated at Closing. Gwalia's portion of the taxes on the Exchange Property shall not be considered part of the Exchange Value.

10. Any loss or damage occurring to the Bowater Property after the date hereof shall be the responsibility of Gwalia, and any loss or damage to the Exchange Property occurring after acquisition by Gwalia and prior to conveyance to Bowater shall be the responsibility of Bowater. Each party shall have the right to enter the property being acquired by it from the other for the purpose of taking all action deemed necessary to reduce said risk of loss. Bowater agrees to indemnify and hold harmless Gwalia for any and all liability (except ad valorem tax liability) which Gwalia may

incur by reason of Gwalia holding title to the Exchange Property.

11. Gwalia shall not be required to enforce by legal action any option or contract made in its name to purchase Exchange Property, and in case of any dispute involving same, Gwalia shall promptly assign that option or contract and all of its rights thereunder to Bowater without recourse or warranty, and Bowater shall reimburse Gwalia for all direct costs (including earnest money) incurred by Gwalia in connection with that contract or option and shall indemnify Gwalia and hold Gwalia harmless with respect to any claims that may be asserted against Gwalia under such contract or option.

12. Any notice or property designation required under this Agreement shall be sufficient if delivered in person or by certified mail addressed to the parties as follows:

If to Bowater: H.M. Templeton, III
Division Counsel
Bowater Incorporated
Carolina Division
Calhoun, Tennessee 37309

If to Gwalia: Gwalia (USA) LTD.
Attention: Mr. Michael Drozd
1675 Broadway, Suite 2350
Denver, Colorado 80202

13. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors, and assigns.

14. This Agreement shall be governed by the laws of the State of South Carolina.

IN WITNESS WHEREOF, the parties hereto have signed,
sealed, and delivered this Agreement on the date first above
written.

ATTEST:

GWALIA (USA) LTD.

Title: _____

By: _____

Title: _____

ATTEST:

BOWATER INCORPORATED

Harvey M. Templeton, III
Assistant Secretary

By: _____

George W. Flanders
Vice President-Woodlands
Manager, Carolina Division

EXHIBIT "A"
to
EXCHANGE AGREEMENT

Bowater Incorporate Tract No 1282, Parcel 1, located in McCormick County, South Carolina, and being more particularly described as follows:

Being all of Parcel 1 of Tract 1282 conveyed by East Highlands Company to Catawba Timber Company by deed dated January 1, 1979, and of record in Deed Book 49, Page 142, in the Office of the Clerk of Court for McCormick County, South Carolina, containing 148 acres, more or less.

The southeastern boundary of said property was subsequently modified by two boundary line agreements dated November 17, 1980, and November 18, 1980, and of record respectively in Deed Book 54, Page 14, and Deed Book 54, Page 15, in the Office of the Clerk of Court for McCormick County, South Carolina, so that said property now consists of 148.02 acres.

RESERVING unto Bowater Incorporated and its successors and assigns all coal, oil, gas, associated hydrocarbon substances, and all metallic or non-metallic minerals and ores which contain mineral matter or substances and mineral rights in, on, or under the above-described property together with the right to explore for and remove same by any method. Subject, however, to the Mineral Lease between Bowater Incorporated and Gwalia created by exercise on _____ of the option to lease under the Exploration Agreement With Option to Lease dated September 1, 1985. The Mineral Lease shall survive the conveyance by Bowater Incorporated of the above-described property to Gwalia.

SUBJECT to existing easements and rights of way for public roads and highways and public utilities, if any, extending into, through, over, or across the above-described property.

Prior title reference: Deed Book 49, Page 142, Office of the Clerk of Court for McCormick County, South Carolina.

(a) The Seller has no knowledge of and, after reasonable inquiry, has no reason to believe (i) that any industrial or manufacturing use has been made of the Property; (ii) that the Property has been used for the generation, storage, treatment or disposal of hazardous or toxic chemicals, or any wastes or materials that are classified by federal, state or local laws as hazardous or toxic substances, (iii) that any manufacturing, landfilling or chemical production has occurred on the Property; or (iv) that any underground tanks have ever been located or are currently located on the Property.

(b) The Seller is not aware of any reports, studies or other documents indicating that any contaminants, including but not limited to asbestos, are on, in or under the Property.

(c) Seller has complied with all state, federal and local environmental laws and regulations relating to the Property.

(d) Seller represents and warrants that there are no Hazardous Materials (as hereinafter defined) located on the Property and that no part of the Property is affected by any Hazardous Materials Contamination (as hereinafter defined). To the best of the Seller's knowledge, no property adjoining the Property has ever been used as a manufacturing, storage or dump site for Hazardous Materials nor is any other property adjoining the Property affected by Hazardous Materials Contamination.

(e) "Hazardous Materials" shall mean (i) "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 ("RCRA") (42 U.S.C. Section 6901 et. seq.), and regulations promulgated thereunder; (ii) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et seq.) ("CERCLA"), as amended, and regulations promulgated thereunder; (iii) asbestos; (iv) polychlorinated biphenyls; (v) any substance the presence of which on the Property is prohibited by any applicable law, ordinance, or regulation of any federal, state, or local government or agency thereof (collectively, "Governmental Requirement"); and (vi) any other substance which by any Governmental Requirement requires special handling in its collection, storage, treatment, removal, or disposal.

(f) "Hazardous Materials Contamination" shall mean the contamination (whether presently existing or hereafter occurring) of any improvements on the Property or of other facilities, soil, ground water, air or other facilities, soil, ground water, air or other elements on or of the Property by Hazardous Materials, or the water, air or other elements on, or of, any other property as a result of Hazardous Materials at any time (whether before or after the date of this Agreement) emanating from the Property.

(g) If there are underground tanks on the Property: All underground tanks on the Property are properly permitted by the appropriate regulatory agency, such permits are transferable to Buyer and Seller has complied with all laws and regulations applicable thereto.

(2) Indemnities:

(a) If any Hazardous Materials Contamination is found on the Property, Seller shall defend (with counsel selected by Buyer), indemnify and hold harmless the Buyer from any and all liabilities (including strict liability), actions, demands, penalties, losses, costs or expenses (including, without limitation, reasonable attorneys' fees and remedial costs), suits, costs of any settlement or judgment, and claims of any and every kind whatsoever which may now or in the future be paid, incurred or suffered by or asserted against, the Buyer by any person or entity or governmental agency for, with respect to, or as a direct or indirect result of, the presence on, under, or the escape, seepage, leakage, spillage, discharge, emission, discharging, removal or release from the Property prior to the date of the transfer of the property to Buyer of any Hazardous Materials or any Hazardous Materials Contamination or which arise out of or result from the environmental condition of the Property or the applicability of any governmental requirement relating to Hazardous Materials (including, without limitation, RCRA, CERCLA or any so called federal, state or local "Superfund" or "Superfund" laws, statute, law, ordinance, rule, regulation, order or decree) regardless of whether or not caused by or within the control of Seller.